

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE ON THE FINANCIAL STATEMENTS OF THE NGQUSHWA LOCAL
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2012**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of Ngqushwa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act, 2008 (Act No. 71 of 2008) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Trade and other receivables from exchange transactions

4. Sufficient appropriate audit evidence was not available to support trade and other receivables from exchange transactions of R3,3 million as disclosed in note two to the financial statements. In addition, sufficient appropriate audit evidence was not available to support the impairment of trade and other receivables from exchange transactions of R1,7 million. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to trade and other receivables from exchange transactions were necessary.

Other receivables from non-exchange transactions

5. Sufficient appropriate audit evidence was not available to support other receivables from non-exchange transactions of R3,2 million as disclosed in note three to the financial statements. In addition, sufficient appropriate audit evidence was not available to support the impairment of other receivables from non-exchange transactions of R10,7 million incorrectly set off against the receivable balance and not disclosed in the disclosure note. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to other receivables from non-exchange transactions and impairments to other receivables from non-exchange transactions were necessary.

VAT receivable

6. VAT receivable of R1,2 million was incorrectly written off against accumulated surplus and not expensed in the current year. The municipality did not have adequate systems in place to identify, reconcile and disclose all VAT transactions relating to VAT receivable of R1,1 million in disclosure note 4 to the financial statements. Due to this limitation I was unable to determine whether all the required VAT transactions were accurately recorded and whether the correct amounts were paid over to the South African Revenue Services. Consequently, I was unable to determine whether adjustments to the VAT receivable and all other affected disclosures were necessary.

Property, plant and equipment

7. Moveable assets of R2,2 million acquired in the 2012/2013 financial year have been incorrectly accounted for in the current year and as a result assets and creditors are overstated by the same amount. In addition, not all movable tangible assets selected have been recorded nor have selected movable tangible assets been recorded at appropriate values. The municipality does not maintain an adequate fixed asset register, and sufficient appropriate audit evidence was not available to support movable tangible assets amounting to R7,2 million in disclosure note 5.1 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether adjustments to movable tangible assets were necessary.
8. Infrastructure assets available for use with a carrying value of R3,9 million in disclosure note 5.1 to the financial statements were recorded as capital work-in-progress and were not depreciated as required by GRAP 17: *Property, plant and equipment (PPE)*. As a result, infrastructure assets are understated by R3,9 million and capital work-in-progress is overstated by the same amount.
9. In terms of GRAP 3: *Accounting policies, changes in accounting estimates and errors*, errors identified must be accounted for retrospectively. During the current year the municipality adjusted the errors identified during the prior year audit on PPE, however the adjustment was not done retrospectively by adjusting the comparatives reflected in note 5.1 to the annual financial statements. Consequently the opening and closing balance of PPE in the comparative figures in note 5.1 is misstated as well as the current year opening balance in the same note. It was impracticable to determine the full extent of the misstatement. Furthermore, this adjustment was not taken into account when calculating the current year cost, depreciation and accumulated depreciation which were misstated by R127 million, R120,7 million and R6,3 million respectively. In addition the comparative figure for depreciation of R30 million on the statement of financial performance has not been considered when taking the correction of error into account. It was impracticable to determine the amount of the adjustment to depreciation, even by alternative means.

Investment properties carried at cost

10. The municipality did not account for investment properties at fair value as required by GRAP 16: *Investment property*. Due to the lack of information, it was impracticable for me to determine the full extent of the error in investment properties of R3,4 million as disclosed in note 7 to the financial statements. Consequently, I was unable to determine whether any further adjustments to investment properties and all other affected disclosures were necessary.

Trade and other payables from exchange transactions

11. Liabilities of R2,6 million relating to the 2012-13 financial year were incorrectly recorded in the current financial year. Furthermore, the municipality did not have adequate systems in place to reconcile trade creditors and accrue for expenditure. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the misstatement of trade creditors of R6,9 million disclosed in note 8 to the financial statements even by alternative means. Consequently, I was unable to determine whether any further adjustments to the amount disclosed for trade creditors were necessary.
12. The municipality did not maintain adequate leave records for its employees, resulting in an understatement of accrued leave pay by at least R665 000. However, due to the lack of systems in place, it was impracticable for me to determine the full extent of the misstatement in accrued leave pay. In addition, sufficient appropriate audit evidence was not available to support accrued leave pay of R863 000 in disclosure note 8 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to the amount disclosed were necessary.
13. Sufficient appropriate audit evidence was not available to support salary suspense accounts of R854 355 and accrued water and sanitation expense of R119 299 disclosed in note 8 to the financial statements. I was unable to confirm the disclosures by alternative means. Consequently, I was unable to determine whether any further adjustments to the amounts disclosed were necessary.

Housing Development Fund

14. The Housing Development Fund of R2,2 million, as disclosed on the face of the statement of financial position, has been incorrectly disclosed as a separate reserve under net assets. The Housing Development Fund should be included in accumulated surplus and disclosed separately by way of a note.

Property rates

15. The municipality did not have adequate systems in place to maintain records of revenue earned from property rates. Property rates of R11,8 million, as disclosed in note 11 to the financial statements, were not calculated and recorded using the approved tariff structure. Furthermore, selected rate certificates could not be agreed to the valuation roll used and the use of the supplementary valuation roll was not considered in the billing process. In addition, journals for R7 million were not supported by appropriate audit evidence. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the error in property rates, even by alternative means. Consequently, I was unable to determine whether any further adjustments to the amount disclosed for property rates were necessary.

Interest earned – outstanding receivables

16. The municipality did not charge interest on overdue receivables as required by section 64(2)(g) of the MFMA. Due to the lack of systems and insufficient appropriate audit evidence, it was impracticable to determine the full extent of the understatement of interest earned on outstanding receivables as disclosed in note 15 to the financial statements, even by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the interest earned on outstanding receivables disclosure note.

Government grants and subsidies

17. In contravention of GRAP 23: *Revenue from Non-exchange Transactions*, conditional grants are accounted for as revenue upon receipt instead of when conditions are met. A reconciliation between grant expenditure and revenue is performed at year-end to determine the value of unspent conditional grants and recorded via a journal entry. As a result of the scope limitation on expenditure used in the performance of this reconciliation, the valuation and completeness of unspent conditional grants could not be determined. Due to this limitation, I could not determine whether conditional grant funding was utilised for its intended purpose or, alternatively, for operational expenditure. Consequently, I was unable to determine whether any further adjustments to the conditional grant spending of the municipality for R13,1 million as disclosed in note 16 were necessary. Further, the classification between the unspent conditional grants and receipts of R7,9 million (2011: R112 000) as disclosed on the face of the statement of financial position and in conditional grant spending disclosed in the statement of financial performance could not be determined.

Repairs and maintenance

18. The municipality did not have adequate systems in place to maintain records of repairs and maintenance expenditure. Sufficient appropriate audit evidence was not available to support the repairs and maintenance expenditure of R3,5 million as disclosed in the statement of financial performance. I was unable to confirm the expenditure and related disclosure by alternative means. Consequently, I was unable to determine whether any adjustments relating to repairs and maintenance expenditure and capital assets were necessary.

General expenditure

19. General expenditure of R2,2 million was incorrectly recorded in the current year, of which R1,7 million related to the 2010-11 financial year and R485 000 related to the 2012-13 financial year. As a result, general expenditure is overstated by R2,2 million, accumulated surplus is understated by R1,7 million and creditors are overstated by R485 000. Furthermore, the municipality did not have adequate systems in place to maintain records of expenditure nor was there sufficient appropriate audit evidence available for general expenditure amounting to R24,2 million (2011: R31,1 million) as disclosed in note 22 to the financial statements. I was unable to confirm general expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to general expenditure were necessary.

Cash flow statement

20. The cash flow statement presented as part of the financial statements has not been prepared in accordance with the requirements of GRAP 2: *Cash flow statements*. Net cash and cash equivalents of R2 million (credit) does not agree to the statement of financial position, which reflects cash and cash equivalents of R9,4 million (debit). I was unable to confirm the difference by alternative means. Consequently, I was unable to determine whether any adjustments were necessary in cash flow statement.

Corresponding figures

21. No supporting documentation could be provided for corrections made during the current

year audit as disclosed in note 26 to the financial statements in support of those figures which are disclosed in the current year financial statements as corresponding figures. My opinion on the current year financial statements is thus modified due to comparability as I was again unable to determine whether any adjustments were necessary to the balances, classes of transactions and disclosures which have been included as corresponding figures.

22. My opinion on the following balances, classes of transactions and disclosures included in the prior year annual financial statements was modified due to a limitation of scope. The matters which gave rise to the limitation, as described below, remain unresolved in the current year.

- Bank overdraft reflected as R4,5 million disclosed in note 1 to the financial statements
- Employee related costs reflected as R24,4 million disclosed in note 19 to the financial statements
- Contingent liability disclosures in note 31 to the financial statements
- Budget disclosure in note 37 to the financial statements

23. I was unable to obtain sufficient appropriate audit evidence for the above by alternative means. Consequently, I was unable to determine whether any adjustments to these amounts and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 2010-11 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

Irregular expenditure

24. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year, as required by section 112 of the MFMA. The irregular expenditure disclosed in note 27 to the financial statements is understated in respect of amounts totalling R18 million incurred during the year that were identified during the audit process. Due to the lack of systems and insufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R14,9 million in note 27.3. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure note.

Unauthorised expenditure

25. The municipality did not disclose any unauthorised expenditure incurred during the current year in the financial statements. Unauthorised expenditure amounting to R18,3 million was identified during the audit, this related to overspending on the total budget. As a result unauthorised expenditure is understated by this amount.

Commitments

26. The municipality did not have a contract management system in place for the identification and recognition of contracted commitments and did not include all commitments of the municipality in the amounts disclosed in note 29 to the financial statements. Due to the lack of systems in place, it was impracticable to determine the full extent of the understatement. In addition, sufficient appropriate audit evidence was not available for

commitments totalling R2,3 million (2011: R18,5 million) as disclosed in note 29 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to the commitments disclosure note were necessary.

Disclaimer of opinion

27. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

28. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

29. As disclosed in note 36 to the annual financial statements, the comparative figures for 30 June 2012 have been restated as a result of errors in the 2011 financial statements which were only corrected in the current financial year. The most significant of the restatements related to valuation of property, plant and equipment and reconstruction of the fixed asset register.

Material underspending of conditional grants

30. As disclosed in disclosure note 16.2 to the annual financial statements, the municipality has materially underspent their conditional grants amounting to R6,5 million. **Additional matters**
31. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Withdrawal from the audit engagement

32. Due to the limitation imposed by management on the scope of the audit, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards of Auditing (ISAs).

Unaudited supplementary schedules

33. The supplementary information set out on page xx of the annual report does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, have not expressed an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

34. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance

with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

35. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report of the municipality as set out on pages ... to ... of the annual report.
36. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

37. The material findings are as follows:

Usefulness of annual performance report

Presentation

38. The National Treasury Guide for the preparation of the annual report requires that explanations for major variances between the planned and reported (actual) targets should be provided in all instances and should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for all major variances as disclosed in the annual performance report. The institution's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the reasons for major variances.
39. Section 46 of the Municipal Systems Act requires the disclosure of measures taken to improve performance as disclosed in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for all measures taken to improve performance as disclosed in the annual performance report. This was due to limitations placed on the scope of my work by the municipality. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself in this regard.

Consistency

40. Section 41(c) of the Municipal Systems Act requires that the annual performance report should form the basis for the annual report, thus requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 28% of the reported objectives are not consistent with the planned objectives as per the approved annual performance report. This is due to objectives appearing in the integrated development plan, but not in the service delivery budget, implementation plan and annual

report, as well as a lack of supporting documentation.

Measurability

Performance targets not specific

41. The National Treasury *Framework for managing programme performance information* (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. All targets relevant to objectives were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Performance targets not measurable

42. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for 94% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Performance targets not time bound

43. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 60% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Indicator not well defined

44. The National FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. None of the indicators were well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Indicators not verifiable

45. The National FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. None of the indicators were verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Relevance

Indicators/measures not relevant

46. The National FMPPI requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the integrated

development plan.

Reliability of information

Reported performance not valid

47. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 100% of the development objectives. This was due to limitations placed on the scope of my work because of the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Reported performance not accurate

48. The National Treasury FMPPI requires that the indicator should be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 100% of the development objectives. This was due to limitations placed on the scope of my work because of the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Reported performance not complete

49. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The institution could not provide sufficient appropriate evidence to support 100% of the selected development objectives.

Additional matter

In addition to the above findings, I draw attention to the following matter:

Achievement of planned targets

50. Of the total number of planned targets, only 26 were achieved during the year under review. This represents 56% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

51. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Budgets

52. Expenditure was incurred in excess of the limits provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
53. Quarterly reports were not submitted to the council on the implementation of the budget

and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

54. Monthly budget statements were not submitted to the mayor, as required by section 71(1) of the MFMA.
55. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

Annual financial statements and annual performance report

56. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
57. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
58. Sufficient appropriate evidence could not be obtained that the accounting officer had made the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
59. Sufficient appropriate evidence could not be obtained that the municipal council adopted an oversight report containing comments on the annual report within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
60. Sufficient appropriate evidence could not be obtained that the accounting officer had made public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Internal audit

61. The internal audit unit did not function as required by section 165(2) of the MFMA in that it did not advise the accounting officer and report to the audit committee on matters relating to loss control.

Procurement and contract management

62. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
63. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulation 16(b) and 17(b).
64. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

65. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
66. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
67. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations.
68. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
69. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
70. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
71. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
72. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
73. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
74. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) or did not qualify for the contract, in contravention of section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
75. Construction projects were not always registered with the CIDB Board, as required by section 22 of the CIDB Act and CIDB regulation 18.
76. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
77. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed

by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Human resource management and compensation

78. The supply chain manager was appointed without having met the prescribed minimum competency levels and continued employment in the position was not made subject to meeting such requirements by 1 January 2013, as required by section 54A(2) of the Municipal Systems Act and regulation 18(2) on minimum competency levels.
79. An acting municipal manager was appointed for a period of four months, in contravention of section 54A(2A)(a) of the Municipal Systems Act.
80. Sufficient appropriate audit evidence could not be obtained that an approved staff establishment was in place, as required by section 66(1)(a) of the Municipal Systems Act.
81. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels, as required by regulation 13 of the municipal regulations on minimum competency levels.
82. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by regulation 14(2)(a) of the regulations on minimum competency levels.
83. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by regulation 14(2)(b) of the regulations on minimum competency levels.

Expenditure management

84. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
85. Sufficient appropriate audit evidence could not be obtained that payments had been approved by the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.
86. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
87. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
88. The accounting officer did not take effective steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.
89. The accounting officer did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

90. Unauthorised, irregular, fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.
91. The accounting officer did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence and fraud which occurred in the municipality, as required by section 32(6) of the MFMA.

Conditional grants

92. Monthly budget statements were only submitted for nine of the 12 months and did not include explanations of material problems nor the extent of DoRA compliance, as required by section 12(2)(b) of DoRA.
93. Sufficient appropriate audit evidence could not be obtained that the allocations for all schedule 6 allocations were utilised for the purposes stipulated in the grant framework, as required by section 15(1) of DoRA.
94. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to the National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.
95. The municipality did not table a three-year capital budget as part of its 2010-11 financial year's budget, as required by the *Division of Revenue Grant Framework, Gazette No. 34280*.
96. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the *Division of Revenue Grant Framework, Gazette No. 34280*.
97. The municipality did not submit, within 20 days after the end of each month, its monthly expenditure reports to CoGTA, as required by the *Division of Revenue Grant Framework, Gazette No. 34280*.
98. The municipality did not submit MFMA implementation plans to the National Treasury to address weaknesses in financial management, as required by the *Division of Revenue Grant Framework, Gazette No. 34280*.
99. The municipality did not disclose in its financial statements the purpose and amount of grants received from public entities, as required by section 31 of DoRA.
100. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.

Revenue management

101. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
102. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by 64(2)(h) of the MFMA.

103. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

104. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
105. Capital assets were permanently disposed of without the approval of the council, in contravention of section 14(2)(a) of the MFMA and municipal asset transfer regulation 5.

Financial misconduct

106. All instances of financial misconduct were not reported to the South African Police, as required by section 62(1)(e) and regulation 8(4) of the disciplinary regulations for senior managers.
107. All instances of financial misconduct, where sanctions were imposed, were not reported to the MEC for Finance, as required by regulation 12(3) of the disciplinary regulations for senior managers.

Liability management

108. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
109. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

110. Sufficient appropriate audit evidence could not be obtained that the municipal council had consulted with the local community in the drafting and implementation of the municipality's IDP by means of a municipality-wide structure for community participation, as required by section 28 of the Municipal Systems Act and Local Government: Municipal planning and performance management regulations 15(1)(a)(i).
111. Sufficient appropriate audit evidence could not be obtained that the municipality had established mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.
112. The municipality did not:
113. set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives as per its integrated development plan;
114. set measurable performance targets with regard to each development priority and objective;
115. monitor performance with regard to each of those development priorities and objectives and against the key performance indicators and targets set;

116. measure and review performance at least once per year with regard to each of those development priorities and objectives and against the key performance indicators and targets set; and
117. take steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 of the Municipal Systems Act.

Internal control

118. I considered internal control relevant to our audit of the financial statements, performance report of the municipality and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the performance report of the municipality and the findings on compliance with laws and regulations included in this report

Compliance

Leadership

119. The political and administrative leadership have not taken full ownership of the internal control environment and insisted on daily disciplines that ensure efficiency and effectiveness in financial management, service delivery execution and compliance with laws and regulations, thus not setting the correct tone for the credibility of all reports of the administration.
120. There is inadequate oversight by management due to a lack of regular reviews by management on monthly reporting. Certain staff members within the finance department do not understand the applicable financial reporting framework and there is also a lack of capacity at management level within the municipality. There is poor communication between management and the consultants hired to assist with the preparation of reconciliations and the provision of assistance with regard to financial matters, with the municipality relying too heavily on consultants.
121. Failed execution of internal control objectives, processes and responsibilities has resulted in unauthorised, irregular and fruitless and wasteful expenditure not being prevented and detected.
122. Management's attitude to compliance is both inappropriate and malicious which is further evidenced in the lack of controls and systems in place to monitor compliance with legislation.

Financial and performance management

123. The financial statements and performance report are not supported by complete, relevant and accurate information. Record management is inadequate and not systematically and regularly monitored by management to ensure that information is easily retrievable and available for audit purposes
124. The municipality did not exercise adequate controls over daily and monthly processing and reconciling of transactions as certain significant accounts and schedules were not performed timeously or could not be provided for the audit. There is an inadequate

performance management system in place, and while the staff have the required knowledge and understanding of the requirements of the act, they chose to disregard these.

Governance

125. The internal audit function was not effective for the current financial year. They were understaffed and the internal audit department was not able to follow up and perform work on the AG's action plan due to a lack of cooperation from department heads.
126. As a result of the impaired functioning of the internal audit function, the audit committee could not effectively evaluate and monitor responses to risks and provide oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

OTHER REPORTS

Investigations

127. An independent organisation has been appointed to conduct an investigation which was still ongoing at the reporting date. No information was provided on the details and progress of this investigation.

Auditor-General

East London

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence